

GAO

Report to the Chairman, Subcommittee on
Readiness, Committee on Armed Services,
House of Representatives

October 1992

ARMY INVENTORY

Divisions' Authorized Levels of Demand-Based Items Can Be Reduced



**National Security and
International Affairs Division**

B-237804

October 20, 1992

The Honorable Earl Hutto
Chairman, Subcommittee on
Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This report responds to your concerns about whether the Army's inventory levels of demand-based items are excessive and whether these inventory levels could be reduced without impairing military readiness.

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairmen of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations, and the Senate Committee on Armed Services; and the Secretaries of Defense and the Army. Copies will also be made available to other parties on request.

Please contact me at (202) 275-4141 if you or your staff have any questions. Other major contributors to this report are listed in appendix II.

Sincerely yours,



Richard Davis
Director, Army Issues

Executive Summary

Purpose

The Army maintains a \$4 billion inventory of nondemand- and demand-based repair parts at its retail-level activities—installations, divisions, and other units. In prior reports, GAO has recommended ways to reduce the inventory levels for nondemand-based items—those inventory items whose stock levels are based on management discretion rather than on the frequency of demands. Concerned that the inventory levels of demand-based items may also be excessive, the Chairman of the Subcommittee on Readiness, House Committee on Armed Services, asked GAO to determine whether the Army could reduce the number and quantity of demand-based items maintained at the retail level without impairing its military capability. The Chairman was also interested in what new inventory management techniques the Army had ongoing and planned.

Background

In order for an item to be stocked at the retail level as a demand-based common item, the item must be requested at least nine times during a 12-month period. Once an item qualifies to be stocked as a demand-based item, it must continue to be requested at least three times in each subsequent 12-month period.

To determine whether the inventory of demand-based items could be reduced, GAO performed its review at six divisions located in the United States. These divisions were authorized to stock demand-based common items valued at about \$157 million.

Results in Brief

Army divisions in the United States are maintaining demand-based items in larger quantities than are needed to meet the needs of their customers. The Army could reduce the number and quantity of such items at the divisions without impairing its military capability.

The six divisions where GAO performed its review retained about \$29 million of items categorized as demand-based (about 18 percent of the total authorized inventory), even though the items had been requested fewer than three times during the latest 12-month period.¹ Furthermore, \$21 million of the \$29 million was for items that had no demands.

¹The six divisions had \$7.8 million of authorized inventory that had been requested one or two times during the previous 12 months. Some of these items, such as engineering, communication security, and life-saving items, require only one demand to be retained as demand-based. The Army could not identify the total number of such items at the divisions.

The retention of items that do not meet the demand-based criteria was included in the checklist used to perform the Army's fiscal year 1991 assessment of internal controls. However, it was not reported as a material weakness by any of the divisions and therefore, was not included in the Secretary of the Army's annual Federal Managers' Financial Integrity Act report.

The Army's criteria for determining what items and what quantities should be retained as demand-based items have resulted in the retention of too many items in too large quantities. Consequently, the Army has a significant investment in inventory that contributes little toward meeting the needs of its customers.

Reducing the number and quantity of demand-based items would have little, if any, effect on the readiness of the units. Only 6 percent of all the items demanded were requisitioned with a priority that indicated the items were needed to solve inoperable equipment problems. When there is a critical need for the item, the Army already has a system to expedite the item's delivery from the depot to the requester.

The Army is testing an inventory concept called "sparing to availability." The objective of this concept is to optimize the quantity of spare parts to meet specified weapon system performance targets. The reported test results indicate that the objective of sparing to availability is being achieved. However, the test results are misleading, and this concept may conflict with other ongoing inventory management initiatives. Consequently, there are questions about whether sparing to availability can achieve its objective.

Principal Findings

Many Demand-Based Items Do Not Meet the Retention Criteria

Of the \$157 million of demand-based items authorized to be stocked at the six divisions in GAO's review, inventory items valued at about \$29 million had been requested fewer than three times during the latest 12-month period. In fact, over \$21 million of the \$29 million of inventory represented items that had not been requested at all during the 12-month period.

One division official told GAO that a possible reason for retaining these items was the Department of Defense's decision that effective April 1992, divisions would have to pay for all items obtained from the wholesale-level

supply system, whereas many of the items were previously provided at no cost to the divisions. Divisions may therefore have decided not to delete the items from their authorized inventories and return them to the wholesale system. If the items were requisitioned at a later date, the divisions would have to pay for them.

GAO found that the Army's fiscal year 1991 self-assessment internal controls checklist included the retention of demand-based inventory that does not meet the retention criteria. However, the annual report by the Department of the Army did not identify the issue as a material internal control weakness in its Federal Managers' Financial Integrity Act report.

Criteria for Determining Demand-Based Items Result in Excessive Inventory

The Army's current demand-based retention criteria result in the retention of items that contribute little toward supporting the needs of the divisions' customers. These items represent a relatively large percentage of the inventory items but a relatively small percentage of the inventory issued to the divisions' customers.

Of all the items that met the Army's criteria for retention as demand-based items at the six divisions GAO reviewed, 41 percent had been requested from 3 to 12 times during the latest 12-month period. However, these same items accounted for less than 8 percent—\$37 million of the \$468 million—of the total issues. Conversely, items with 13 or more demands accounted for 92 percent of the issues.

Excessive Quantities of Demand-Based Items Are Authorized for Stockage

Army policy generally authorizes divisions to maintain a stock level of 45 days of supply. This policy implies that the Army expects the inventory to turn over 8 times a year (365 days divided by 45 days of supply equates to an annual turnover rate of about 8).

The number of times that inventory turns over indicates the sufficiency of the quantity of items stocked. GAO found that \$112 million of the Army's \$157 million inventory investment is for items whose inventories turn over fewer than three times a year. Furthermore, 31 percent of the inventory investment is for items whose inventories turn over less than once a year.

GAO also found that over \$100 million of the \$157 million inventory investment was for items that had 13 or more demands during the year. However, even these items did not experience high turnover rates. Over \$57 million of the \$100 million is invested in items whose inventories

turned over fewer than three times a year, and about \$8 million of the items' inventories turned over less than once.

Having a large portion of the inventory investment in items that turn over infrequently indicates that the quantities of items stocked are too large.

Few Items Are Requisitioned to Solve Problems With Inoperable Equipment

Army officials told GAO that reducing the authorized inventory levels for items that did not meet the Army's criteria for retention as demand-based inventory or reducing the authorized quantities could adversely affect equipment readiness. GAO found, however, that less than 6 percent of the items at the six divisions had been requisitioned at a priority that would indicate a need for the items to solve inoperable equipment problems.

There may be instances in which an item is critical to unit readiness and time is of the essence. In recognition of this possibility, the Army has a system that allows the requester to identify urgently needed parts so that delivery of the needed item can be expedited. The Department of Defense, however, recognizes that requisitions with high priority designations often are not in fact time-sensitive. A recent Department of Defense Inspector General's report points out that about 50 percent of the so-called "high priority" requisitions should not have been coded as such.

Sparing to Availability Concept Conflicts With Ongoing Initiatives

The Army is currently testing an inventory management concept—sparing to availability—that has the objective of optimizing the quantity of spare parts to meet specified weapon system performance targets. Under this concept, the unit commander has the flexibility to specify the desired weapon system performance targets that drive the authorized inventory levels.

GAO found that the process of achieving the objective of sparing to availability may conflict with the single supply system, which is being implemented to give the wholesale-level inventory managers visibility and control over the retail-level inventories. Whereas the single supply system is intended to reduce the number of authorized inventory items, sparing to availability would increase the number of items. Another objective of the single supply system is to achieve greater supply discipline by controlling the composition of the authorized inventory at the retail level. Under sparing to availability, the composition of the authorized inventory would be largely at the discretion of the unit commander.

Division officials have expressed concerns about the number of additional items (as many as 5,500 at one location) that sparing to availability would require and the additional people who would be needed to manage the larger number of items. According to the test officials, these are common concerns, but officials are not convinced that additional people would be required.

Test officials point to the benefits of sparing to availability. They indicated, for example, that at one test location, the concept allowed the unit to reduce inventory investment by \$75 million. GAO's analysis showed, however, that the reduced inventory investment was not due to using the sparing to availability concept. Instead, it was achieved by eliminating items without demands from the unit's authorized inventory. These items would not qualify for stocking under the Army's current policy.

After testing the concept at one location, test officials concluded that readiness and requisition fill rates increased. However, GAO found that the test results were misleading because the unit's inventory of excess items was available to fill requisitions. Therefore, it was not possible to directly attribute increases in readiness and fill rates to sparing to availability.

Recommendations

GAO recommends that in the Army's fiscal year 1992 annual Federal Managers' Financial Integrity Act report on internal controls, the Secretary of the Army identify (1) the retention of demand-based items that do not meet retention criteria as a material internal control weakness and (2) an action plan to correct the weakness.

GAO also recommends that the Secretary of the Army direct the Deputy Chief of Staff for Logistics to reassess the criteria for determining which items and what item quantities should be retained on divisions' authorized stock lists. The reassessment should be performed with a view toward making the retention criteria more restrictive in order to ensure that the Army's inventory investment optimizes item demands, issues, and supply responsiveness.

GAO further recommends that the Secretary of the Army not approve the sparing to availability concept for implementation at the retail level unless it can be clearly demonstrated that the concept can achieve its intended objective and that it will not conflict with the objectives of a single supply system.

Agency Comments

The Department of Defense agreed that items not meeting the criteria for retention as demand-based items must be reviewed, changed to nondemand-based items if they meet the criteria for this category of items, or deleted from the authorized stock list.

The Department of Defense also agreed that the Army will reevaluate the demand-based retention criteria and make the necessary changes to optimize its investment in inventory. The Department pointed out that two major commands—Forces Command and U.S. Army, Europe— are currently assessing whether to implement more stringent controls over which items should be retained on the authorized stock lists.

The Department of Defense further agreed that the Army will not implement the sparing to availability concept until demonstrations have been completed, a thorough analysis of the results has been conducted, and it has been determined that sparing to availability does not conflict with the objectives of a single supply system.

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Abbreviations

ASL authorized stock list
GAO General Accounting Office
STA sparing to availability

Introduction

The Army's supply system consists of two distinct levels—a wholesale system and a retail system. The wholesale level consists of six national inventory control points and various supply depots.

The national inventory control points compute item requirements and acquire the quantities of items needed to meet the demands of its retail-level customers. Wholesale-level inventories are stored at depots until the items are requested by and issued to the retail supply activities—installations, divisions, and other units. As of September 30, 1991, the value of Army wholesale-level inventory was about \$15.1 billion.

At the retail level, each unit computes its inventory requirements, requisitions the items from the wholesale system, stores the items, and issues them to user units. Data on the number and value of items in the Army-wide retail inventory is not centrally maintained. However, the Army estimates the value of inventory at the retail level to be about \$4 billion.

Criteria for Determining Stock Levels at Army Divisions

The number of different line items and the quantity of items stocked at the division level represent the division's inventory needs. To determine its inventory needs, each division develops a stock list that specifies the number of line items and the quantity of those items it is authorized to stock. The authorized stock list (ASL) consists of nondemand-based and demand-based items.¹ Nondemand-based items are items that do not qualify to be stocked, based on demands, but that the division has elected or has been directed by the Army to maintain in inventory because of a possible future need.² Demand-based items are items that qualify for stocking based on a specified number of customer requests during a specified period of time.

Army policy prescribes that divisions located in the United States³ are authorized to stock demand-based items equal to

- a quantity of an item needed to sustain 15 days of operations (an operating level);

¹ Divisions maintain inventories of air, missile, and common items. This report deals with common items (parts for tracked and wheeled vehicles and other support equipment), which account for the vast majority of the inventory.

² For more information on nondemand-based items, see Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991).

³ Divisions located outside the United States are authorized to stock an operating level equal to 30 days of supply.

- a quantity of an item equal to 5 days of supply intended to compensate for delays in delivery of ordered items and/or unanticipated increases in demands (a safety-level); and
- a quantity of an item needed to meet demand from the time that an item is ordered from the wholesale system until it is received by the division. This is referred to as the order-ship-time factor. If actual order-ship-time data is available, it is used in the computation. However, when the item is a repairable item or data is not available, 25 days is used in the computation.

Number and Value of Authorized Demand-Based Inventory Items at the Divisions

As shown in table 1.1, Army documents showed that the six divisions in our review were authorized to stock inventories valued at \$392.5 million. Of this total, demand-based common items accounted for \$157.2 million. Demand-based items represent 40 percent of the dollar value of authorized inventory and about 43 percent of the authorized inventory in terms of number of items. The remaining \$235 million of authorized inventory consisted of demand-based air and missile items (\$46 million) and nondemand-based items (\$189 million).

Table 1.1: Demand-Based Authorized Inventory Items Compared to Total Authorized Inventory

Dollars in millions

Division	Total Inventory		Demand-based common Items			
	Number of Items	Value	Number of Items	Percent of total Inventory	Value	Percent of total Inventory
1st Infantry, Fort Riley, Kansas	9,401	\$62.4	3,909	42	\$28.8	46
1st Cavalry, Fort Hood, Texas	8,341	97.5	4,725	57	41.2	42
4th Infantry, Fort Carson, Colorado ^a	8,013	50.8	2,730	34	2.4	5
5th Infantry, Fort Polk, Louisiana	8,565	58.7	3,898	46	26.9	46
24th Infantry, Fort Stewart, Georgia	9,845	99.4	3,676	37	52.5	53
101st Airborne, Fort Campbell, Kentucky	6,559	23.7	2,852	43	5.3	22
Total	50,724	\$392.5	21,790	43	\$157.2	40

^aThe 4th Infantry Division had mostly new equipment for which demand-based requirements for the more expensive item had not been established. This is why demand-based items accounted for such a low percentage of the division's total inventory value.

Objectives, Scope, and Methodology

This report is one in a series that addresses the need to streamline the Army's logistics system. We have previously reported on the Army's need to establish a single supply system, the need to eliminate excess inventory,

and the need to reduce the number and quantity of nondemand-based items at the division level.⁴

The Chairman of the Subcommittee on Readiness, House Committee on Armed Services, asked us to determine whether the Army could reduce the number and quantity of demand-based items maintained at the division level without impairing its military capability. The Chairman was also interested in what new inventory management techniques the Army had ongoing and planned.

We reviewed Army policies and regulations regarding retail inventory management to determine how retail activities determine which items and what quantity of items to stock. We also reviewed Army studies and reports concerning Army initiatives and efforts to reduce division inventory levels and discussed inventory practices with Army officials at the following locations:

- the Office of the Deputy Chief of Staff for Logistics, Department of the Army, Washington, D.C.;
- the U.S. Army Combined Arms Support Command, Fort Lee, Virginia;
- the Army Materiel Systems Analysis Activity, Aberdeen Proving Ground, Maryland; and
- the U.S. Forces Command, Fort McPherson, Georgia.

We performed a detailed analysis of the asset balance files and demand history files at the following six divisions located in the United States. We selected the following six divisions for detailed review because Forces Command officials stated they had the largest ASLs in terms of number of items and dollar value of authorized inventory:

- the 1st Infantry Division (Mechanized), Fort Riley, Kansas;
- the 1st Cavalry Division, Fort Hood, Texas;
- the 4th Infantry Division (Mechanized), Fort Carson, Colorado;
- the 5th Infantry Division (Mechanized), Fort Polk, Louisiana;
- the 24th Infantry Division (Mechanized), Fort Stewart, Georgia;
- the 101st Airborne Division (Air Assault), Fort Campbell, Kentucky.

For each of the above divisions, we determined

⁴Army Inventory: A Single Supply System Would Enhance Inventory Management and Readiness (GAO/NSIAD-90-53, Jan. 25, 1990) and Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991).

- the number and value of demand-based common items that the divisions were authorized to stock,
- whether the demand-based common items were stocked in accordance with Army criteria,
- the requisitioning priorities used by the divisions' customers for ordering demand-based common inventory items,
- the frequency of requests for all demand-based common items, and
- the number of times the authorized demand-based items had turned over during the last 12 months.

We tested the reliability of data that showed the types and quantities of authorized inventory items for the four divisions we visited: the 1st Cavalry Division, the 4th Infantry Division, the 5th Infantry Division, and the 24th Infantry Division. In each case, division officials agreed that our analyses provided a reasonable and accurate profile of the division's ASL.

Our review of the requisitioning and inventory data included the period of Operation Desert Storm. As a result, we would expect that the number of requisitions and the priority of the requisitions were higher than would be expected during normal peacetime operations. Therefore, the report's conclusions regarding the number and value of demand-based items that did not meet the criteria for retention and the frequency of high priority requisitions are conservative when viewed in the context of the events that were occurring at that time.

Our review was performed from September 1991 to June 1992 in accordance with generally accepted government auditing standards. We obtained Department of Defense comments on a draft of this report. Its comments are discussed at the end of chapters 2 and 3 and are presented in their entirety in appendix I.

Divisions' Authorized Demand-Based Inventory Levels Are Larger Than Needed

At the six divisions in our review, demand-based items valued at over \$29 million, or about 18 percent of the total authorized inventory, did not meet the criteria for retention as demand-based items. In addition, the Army's current criteria for determining what items and what quantities should be retained as demand-based items have resulted in excessive numbers and quantities of items authorized to be stocked when compared to the number and the quantity of items being issued to the divisions' customers.

Reducing both the number of different items and the quantity of the items authorized to be stocked as demand-based inventory would not affect supply responsiveness. Many of the demand-based items, as well as the item quantities being retained, contribute little toward supporting the needs of the divisions' customers. As a result, the Army is investing its resources in inventory that does not reflect actual usage.

Division officials expressed concern about eliminating these items from the authorized stocks because of a possible adverse impact on unit readiness. However, our review showed that relatively few requisitions were for items that were immediately needed to solve inoperable equipment problems.

Many Demand-Based Inventory Items Did Not Meet Retention Criteria

Army criteria provide that for a demand-based common item to be authorized for stock, it must be requested nine times during a 12-month period. As a general rule, to remain qualified, an item must be requested three times during the subsequent 12 months.¹ If the item does not meet the retention criteria, the division is not authorized to stock it, and the item is to be removed from the authorized list of stocked items.

At the six divisions in our review, \$28.8 million of demand-based items (18 percent of their total authorized inventory) had been requested fewer than three times during the latest 12-month period. Furthermore, over \$21 million, or about 74 percent, of the \$28.8 million related to items that had not been requested at all during the latest 12-month period.

Officials at three divisions told us that they could not explain why specific items that did not meet the retention criteria were being retained as demand-based items. However, an official at one of the divisions said that a

¹The six divisions in our review had \$7.8 million of authorized inventory that had been requested one or two times during the previous 12 months. Some of these items, such as engineering, communication security, and life-saving items, require only one demand to be retained as a demand-based item. The Army could not identify the total number of such items at the divisions.

possible overriding reason could be related to the Department of Defense's decision that retail-level activities would have to pay for depot reparable items beginning in April 1992. Prior to this date, these items were issued to the units at no cost.

The official went on to say that because of the Department's decision, the division had decided to retain depot reparable items even though they did not qualify for stocking. The division's rationale for this decision was that if the division was to delete the items from the authorized inventory and return them to the depots, the division might not receive any credit. Subsequently, if the same items were reordered, the division would have to pay for them.

The impact of the division's decision to retain its reparable items is demonstrated by the following example. In August 1991, the division's automated review of its authorized inventory recommended reducing the authorized stock level for reduction gear boxes, with a unit cost of \$35,000, from 10 items to 1. At that time, the division had six on hand and eight due in. The division made the decision not to reduce the authorized level. During the next review in February 1992, it was recommended that the item be deleted from the authorized inventory list. At that time, the division had 10 items on hand and 9 due in, for an inventory value of about \$700,000. Once again, the decision was made not to reduce the authorized level or to return the items to the depot. Between March 1991 and February 1992, the division received two demands for a quantity of two reduction gear boxes. Therefore, the item did not even meet the criteria to be stocked, but division management made the decision to continue to stock it and did not report the excess inventory to the wholesale level.

**Retention of Items That Did
Not Meet Criteria Not Listed
as a Material Weakness**

As part of its annual assessment of internal controls, each major command and its subordinate units perform a self-assessment to determine whether the internal controls are sufficient to preclude fraud, waste, abuse, and mismanagement. The self-assessments by the subordinate units are performed using an internal control checklist. One of the questions on the checklist asks whether all the inventory items authorized for stocking are in accordance with current stocking criteria.

We reviewed the fiscal year 1991 annual report prepared by U.S. Army Forces Command on its subordinate commands and sent it to the Department of the Army. The report did not identify as a material weakness the issue of retaining items that did not meet the criteria for demand-based inventory.

All six divisions in our review had included items in their demand-based inventories that did not meet the retention criteria and, in certain cases, had made conscious decisions to do so.²

The Army's Demand-Based Retention Criteria Result in Too Many Items Being Retained

The Army's criteria that allow for retaining a demand-based item if it is requested at least three times during a 12-month period result in the retention of items that contribute little toward supporting the needs of the divisions' customers. These items represent a relatively large percentage of the total inventory but a relatively small percentage of the inventory issued to the divisions' customers.

At the six divisions we reviewed, about 40 percent of the items had been requested 3 to 12 times during the latest 12-month period. These same items accounted for less than 8 percent of all issues. Conversely, about 60 percent of the items had been requested more than 13 times during the 12-month period and accounted for 92 percent of the issues, as shown in table 2.1.

Table 2.1: Inventory Value and Issues for Demand-Based Common Items at the Six Divisions

Demands	Number of Items	Value of Issues (millions)	Value of authorized Inventory (millions)	Percent of total Issues
3 to 12	7,946	\$37.1	\$27.8	8
13 or more	11,366	430.7	100.9	92
Total	19,312	\$467.8	\$128.7	100

Many Items Are Stocked in Excessive Quantities

The Army does not have a policy regarding inventory turnover rates.³ It does have a policy that authorizes divisions in the United States to maintain a stock level of about 45 days of supply (15 days' operating level, 5 days' safety level, and actual order-ship-time for items when order-ship-time data

²The Federal Managers' Financial Integrity Act of 1982 (P. L. 97-255, 96 Stat. 814) requires ongoing evaluations of the internal control and accounting systems that protect federal programs against fraud, waste, abuse, and mismanagement. It further requires that the heads of federal agencies report annually to the President and the Congress on the condition of these systems and on their actions to correct the weaknesses identified.

³An inventory turnover rate is the ratio of inventory issues to authorized inventory.

is available). If the data is not available or the item is a repairable item, 25 days is used as the order-ship-time factor. This policy implies that the Army can expect the inventory to turn over about eight times a year.

Irrespective of a stated or implied inventory turnover rate, our comparison of the value of inventory issues to the value of authorized inventory quantities showed that the Army has a large portion of its authorized inventory investment tied up in items that turned over infrequently.

As shown in table 2.2, for example, 70 percent of the Army's demand-based inventory investment is in items that turn over fewer than three times a year. Furthermore, about 31 percent of the inventory investment is tied up in items that turned over less than once during the year.

Table 2.2: Inventory Turnover Rates and Value of Authorized Inventory and Issues at the Six Divisions

Dollars in millions

Inventory turnover rate	Value of Issues	Value of authorized inventory	Cumulative percentage of total authorized inventory
0 to 0.99	\$15.9	\$49.2	31.2
1 to 1.99	50.9	38.6	55.6
2 to 2.99	57.3	23.7	70.7
3 to 3.99	31.0	9.2	76.6
4 to 4.99	61.0	13.5	85.2
5 to 5.99	20.7	3.9	87.7
6 to 6.99	15.4	2.4	89.2
7 to 7.99	41.9	5.9	93.0
8 or more	176.9	10.9	100.0

Even the items that had been requested 13 or more times during the 12-month period had authorized inventory quantities that were excessive when compared to actual issues. Our analysis of items with 13 or more demands showed that 57 percent of the \$100.9 million inventory investment was for items that had turned over fewer than three times during the year and that 8 percent of the inventory investment related to items that had turned over less than once during the year. The following example illustrates the excessive quantities authorized for stock:

- An engine hood, with a unit price of \$430, had an authorized stock level of 25. During the latest 12-month period, there were demands for 17 hoods.

In effect, the authorized quantity, which is intended to represent about 45 days of stock, actually represents about 1.5 years of stock.

To the extent that the turnover rate can be increased by reducing the quantity of authorized items carried in inventory, the investment in inventory can be reduced. The question that decisionmakers need to answer is whether they want to tie up substantial resources in inventory quantities that are larger than needed.

Few Demand-Based Items Were Requisitioned to Resolve Inoperable Equipment Problems

Army officials expressed concern that reducing the number of authorized inventory items or the quantities of those items could adversely affect equipment readiness. Our analysis showed, however, that their concerns may not be warranted. As shown in table 2.3, less than 6 percent of the items at the six divisions were requisitioned on a priority basis (issue priority groups 1 to 3) that would indicate equipment was inoperable or the unit was unable to perform its mission due to a lack of parts.

Table 2.3: Items Requisitioned With an Average Priority of 1 to 3 at the Six Divisions

Division	Items requisitioned	
	Number	Percentage of all items
1st Infantry, Fort Riley, Kansas	273	7
1st Cavalry, Fort Hood, Texas	273	6
4th Infantry, Fort Carson, Colorado	73	3
5th Infantry, Fort Polk, Louisiana	228	7
24th Infantry, Fort Stewart, Georgia	247	7
101st Airborne, Fort Campbell, Kentucky	134	5
Total	1,228	6

The Department of Defense recognizes that items requisitioned with a high priority designation often are not critical to maintaining equipment readiness. In fact, a 1988 Department of Defense Inspector General report on the matter of high priority requisitions concluded that about 50 percent of the high priority requisitions should not have been classified as such.⁴

We recognize that there may be instances in which an item is critical to unit readiness and time is of the essence. In such cases, the Army's wholesale-level depot can expedite shipment of the required part to the

⁴Uniform Materiel Movement and Issue Priority System, No. 88-118, April 1, 1988.

requester. In fact, the Army already has a system that allows the requester to identify urgently needed parts so the depot can expedite the processing and delivery of the items to the requester.

Conclusions

At the six divisions in our review, the number and quantity of items being maintained as demand-based inventory are excessive. Items valued at about \$29 million did not meet the demand-based retention criteria of at least three demands during the latest 12-month period, and \$21 million of these items had no demands during the latest 12-month period. Although the matter was part of the checklist used in performing the annual assessment of internal controls, it was not identified as a material weakness in the Department of the Army's Federal Managers' Financial Integrity Act annual report.

Additionally, items that did meet the retention criteria and had been requested 3 to 12 times during the year accounted for 40 percent of the inventory items but only 8 percent of the total inventory issues. We also found that the quantities of demand-based items authorized to be stocked are excessive when compared to usage. Seventy percent of the inventory investment was for items that turned over fewer than three times during the year.

The Army could reduce its inventory investment by reducing the number and quantities of items on the divisions' ASLs, as evidenced by the fact that few of the items were demanded to solve inoperable equipment problems.

Recommendations

We recommend that in the Army's fiscal year 1992 annual Federal Managers' Financial Integrity Act report on internal controls the Secretary of the Army identify (1) the retention of demand-based items that do not meet retention criteria as a material internal control weakness and (2) an action plan to correct the weakness.

We also recommend that the Secretary of the Army direct the Deputy Chief of Staff for Logistics to reassess the criteria for determining which items and what item quantities should be retained on divisions' ASLs. The reassessment should be performed with a view toward making the retention criteria more restrictive in order to ensure that the Army's inventory investment optimizes item demands, issues, and supply responsiveness.

Agency Comments

In commenting on a draft of this report, the Department of Defense agreed that items not meeting the criteria for retention as demand-based items must be reviewed, changed to nondemand-based items if they meet the criteria for this category, or deleted from the ASL. In this regard, the Department plans to (1) reemphasize the need for the ASL review boards to evaluate each ASL item for retention or deletion, (2) review the procedures and processes for eliminating from the ASL those demand-based items that do not meet the retention criteria, and (3) publish the new procedures for reviewing the demand-based items in the next update of Army Regulation 710-2.

The Department of Defense also said that the Army will reevaluate the demand-based retention criteria and make the necessary changes to achieve ASL optimization. The Department pointed out that the major commands already have the authority to apply more stringent controls over their authorized stock levels and that Forces Command and U.S. Army, Europe, are currently assessing whether to implement such controls.

Army Initiatives to Reduce Stock Levels at the Divisions

The Army has ongoing and planned initiatives to streamline its supply system and reduce stock levels at the wholesale and retail levels. One major initiative involves increasing wholesale-level item managers' visibility of retail-level stock through a single supply system. Another major initiative that the Army has in the planning stage is a concept called "sparing to availability" (STA). This initiative is intended to reduce inventory investment and optimize the number and quantity of essential items needed to meet performance goals within budgetary limitations.

Our analysis of STA showed that the reported test results about reduced inventory investment and increased readiness are questionable. Furthermore, the process for achieving the objectives of STA could conflict with those of the Army's single supply system.

Advantages of a Single Supply System

We have previously reported on the advantages to be gained by implementing a single supply system that provides increased supply discipline through increased item visibility and control over retail-level inventory by the wholesale-level item managers.¹ Additionally, the single supply system reduces the overall number of items required to be stocked at the retail-level activities. In the absence of a single supply system, retail-level activities were stocking unneeded items, not reporting all excess inventory to the wholesale level for possible redistribution, and Army managers at the wholesale level were buying items that were excess at the retail level. As a result, the Army was incurring unnecessary inventory investment costs.

We recommended that the Army develop and implement a single supply system that provides its managers with systemwide asset visibility and the authority to redistribute excesses from locations where they are not needed to locations where a need exists. The Army agreed with our recommendation and is in the process of implementing a system which will (1) provide superior responsiveness to the supply system customer at reduced costs and (2) enable the single supply system item manager to direct the redistribution of assets among retail activities.

¹See Army Inventory: A Single Supply System Would Enhance Inventory Management and Readiness (GAO/NSIAD-90-53, Jan. 25, 1990) for a discussion of increased item visibility at the wholesale level.

Sparing to Availability Concept Conflicts With Army's Single Supply System

The Army is currently testing the STA concept, which focuses on achieving the optimal number and quantity of items required to meet performance goals within budgetary constraints. The STA concept provides the unit commander with a great deal of flexibility in determining which and how many items to include as authorized inventory. Under this concept, demands would no longer be the driving factor for determining the composition of the authorized inventory. Instead, factors such as desired readiness, item costs, and overall budget availability would be the driving factors. With these factors, the STA approach is to stock more low-cost items and fewer high-cost items and thus maximize the opportunity to meet customer needs with a lower inventory investment.

While the overall objectives of STA are commendable, the manner in which these intended objectives are to be achieved conflicts with the single supply system approach. First, the single supply system is intended to reduce the number of authorized inventory items. STA would increase the number of items. Secondly, the single supply system is designed to achieve greater supply discipline by establishing greater centralized visibility and control over the retail-level inventories, while STA would increase the discretion of the unit commander at the retail level for determining the composition of the authorized inventory.

Army officials told us that the STA concept was being tested at two locations. The officials went on to say that the test results have shown several effects: an increase in the number of authorized inventory items, an increase in the quantity of low-cost inventory items, and a decrease in the quantity of high-cost items. At one test location, the National Training Center, the number of authorized inventory items increased by about 5,500 items.

Division officials at the test location expressed concern about the additional work load and people who would be required to manage the larger inventory. Test officials told us that while this concern is frequently raised, they do not believe the additional items will cause an increase in the work load or the number of required people.

One of the difficulties encountered during the testing of STA has been the reluctance of some division officials to allow a reconfiguration of their authorized inventories using the STA concept. Consequently, trying to show a direct correlation between STA and improved supply management indicators such as increased readiness and reduced inventory investment has been difficult. To overcome this problem, Army officials testing the STA

concept have resorted to computer simulation in order to determine what the results would have been if a STA authorized inventory had been used.

At the National Training Center, testing officials were allowed to reconfigure the Center's authorized inventory based on STA. According to the officials, STA allowed the Center to lower its inventory investment by \$75 million, from \$130 million to \$55 million. However, our analysis showed that reduction in inventory investment was not the result of STA but rather the result of eliminating items that did not meet the requirements for stocking as demand-based items (items with no demands). As shown in table 3.1, using the STA concept actually increased the inventory investment at the National Training Center, as well as the number and quantity of items stocked.

Table 3.1: Changes From Current ASL Using the STA Concept

Impact on Items	Number of Items added (deleted)	Number of Items with quantities increased (decreased)	Dollar change (millions)
Quantity decreased		(826)	(\$22.4)
Quantity increased		1,637	12.8
Items added	5,622		12.1
Items deleted	(142)		(1.7)
Net change	5,480	811	\$0.8

According to Army officials, one of the major objectives of STA is to ensure that items needed to improve the divisions' readiness are readily available. STA test officials have reported that the National Training Center's readiness and requisition fill rates improved as a direct result of STA. These test results are clouded, however, because the Center's inventory included about \$75 million of excess items that are available to fill requisitions. Therefore, it is not possible to directly attribute increases in readiness and fill rates to STA.

Conclusions

The Army's ongoing and planned efforts to implement a single supply system and reduce inventory investment at the retail level are to be applauded. However, implementation of a new inventory reduction concept—the STA concept—could conflict with the objectives of the single supply system. Under the single supply system, the number of items and dollar investment in inventory can be reduced because an item's availability is readily visible and the capability exists to redistribute items among retail

activities or from the wholesale system. Therefore, fewer items need to be stocked at each retail location. STA, on the other hand, would increase both the number and quantity of items at the retail level. Furthermore, the retail-level managers would have greater latitude in determining the composition of the authorized inventory. Too much latitude was one of the main reasons the Army found it necessary to design the single supply system with visibility and control over retail-level inventories being vested at the wholesale level.

There are a number of questions about whether the STA concept could achieve its intended objectives of reducing inventory investment and increasing readiness.

Recommendation

We recommend that the Secretary of the Army not approve STA for implementation at the retail level unless it can be clearly demonstrated that the concept can achieve its intended objectives and that it will not conflict with the objectives of a single supply system.

Agency Comments

The Department of Defense said that the Army will not make a decision on STA's implementation until demonstrations have been completed and a thorough analysis of the results has been conducted. The Department also said that STA will not be implemented if it is determined that STA conflicts with the objectives of a single supply system.

Comments From the Department of Defense



PRODUCTION AND LOGISTICS

(L/SD)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

September 30, 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled-- "ARMY INVENTORY: The Number and Quantity of Demand Based Items at the Division Level Can Be Reduced," dated July 28, 1992 (GAO Code 393460/OSD Case 9135). With two exceptions, the Department concurs with the GAO findings and recommendations.

The Department does not agree with the GAO conclusion that the Army could reduce the number of items and item quantities without affecting supply responsiveness or readiness. Similarly, the Department does not fully concur with the recommendation that the Army should change its retention criteria for demand-based items. The Army will, however, re-evaluate the demand-based criteria for the Authorized Stockage List--using the GAO analysis, as well as input from the Major Commands.

The detailed DoD comments on the report findings and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Colin McMillan
Acting ASD (PA) 2/30/92
Colin McMillan

Enclosure

Appendix I
Comments From the Department of Defense

GAO DRAFT REPORT--DATED JULY 27, 1992
(GAO CODE 393460) OSD CASE 9135

"ARMY INVENTORY: THE NUMBER AND QUANTITY OF DEMAND-BASED
ITEMS AT THE DIVISION LEVEL CAN BE REDUCED"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *
FINDINGS

- **FINDING A: Criteria for Determining Stock Level at Army Divisions.** The GAO observed that the number of different line items and the quantity of items stocked at the Army division level represent the division inventory needs. The GAO noted each division develops a stock list that specifies the number of line items and the quantity of items authorized for stockage. The GAO noted that, as of March 1992--(1) the value of Army wholesale level inventory was about \$21 billion and (2) the value of the retail level inventory is estimated at \$4 billion. The GAO reported that the authorized stock list consists of nondemand-based and demand-based items. The GAO explained that nondemand-based items are those items that do not qualify to be stocked based on demands, but that the division has elected to maintain in inventory because of a possible future need. The GAO further explained that the demand-based items qualify for stocking based on a specified number of customer requests during a specified period of time. The GAO noted Army policy prescribes that divisions located in the U.S. are authorized to stock demand-based items equal to 45 days of supply. (pp. 2-4, pp. 12-14/GAO Draft Report)

DOD RESPONSE: Concur.

- **FINDING B: Number and Value of Authorized Demand-Based Inventory Items At The Divisions.** The GAO reported that the six divisions included in the review were authorized to stock inventories valued at \$434 million. The GAO explained that, of the total, demand-based common items accounted for \$157 million--about 36 percent of the authorized inventory and about 43 percent of the authorized inventory in terms of number of items. The GAO noted that the remaining \$277 million of authorized inventory consisted of demand-based air and missile items and nondemand-based items. (p. 14/GAO Draft Report)

DOD RESPONSE: Concur.

ENCLOSURE

Now on pp. 2, 10, and 11.

Now on p. 11.

**Appendix I
Comments From the Department of Defense**

- **FINDING C: Many Demand-Based Inventory Items Did Not Meet Retention Criteria.** The GAO reported that at the six divisions it reviewed, over \$28 million of the \$157 million of demand-based items did not meet the criteria for being retained--i.e., at least three demands during the latest 12-month period. The GAO found that over \$21 million of the \$28 million represented items did not have any demands during the 12-month period. (The GAO noted that, if the item does not meet the retention criteria, the division is not authorized to stock it and the item is to be removed from the authorized list of stocked items.) The GAO reported that officials at three of the four divisions it visited could not explain why specific items, which did not meet the retention criteria, were being retained as demand-based items. The GAO further reported, however, that an official at one of the divisions speculated as a possible reason the recent DoD decision (effective in April 1992) that divisions would have to pay for all items obtained from the wholesale level supply system, whereas many of the items were previously provided at no cost to the divisions. The GAO concluded that many demand-based inventory items retained by Army divisions do not meet retention criteria.

The GAO observed that the Army did--as part of the FY 1991 self-assessment of internal controls--look at the issue of retaining demand-based inventory that did not meet the retention criteria. The GAO found, however, that the annual reports by U.S. Forces Command and the Department of the Army did not identify the issue as a material internal control weakness. (p. 4, pp. 18-20/GAO Draft Report)

DOD RESPONSE: Concur.

- **FINDING D: Criteria for Determining Which Demand-Based Items and What Quantity of Items to Retain Need to be Changed.** The GAO concluded that the Army can reduce both the number of items and the quantity of items authorized to be stocked as demand-based inventory without affecting supply responsiveness. The GAO further concluded that many of the demand-based items, as well as the item quantities being retained, contribute little toward supporting the needs of the division customers. The GAO observed that the items represent a relatively large percent of the total inventory, but a relatively small percent of the inventory issued to the division customers.

The GAO reported that, of all the items that met the Army criteria for retention as demand-based items at the six divisions GAO reviewed, 41 percent received from 3 to 12 demands during the latest 12-month period; however, those same items accounted for

Now on pp. 3-4, and 14 to 16.

less than 8 percent-- \$37 million of the \$468 million--of the total issues. The GAO further found that, conversely, items with 13 or more demands accounted for 92 percent of the issues. The GAO pointed out that the current criteria for determining which demand-based items should be retained need to be changed in order to better optimize the Army inventory investment.

The GAO reported that, while the Army does not have a policy regarding inventory turn over rates, it does have a policy that authorizes divisions to maintain a stock level of 45 days of supply. The GAO asserted that policy implies the Army expects the inventory to turn over eight times a year. The GAO indicated the number of times that inventory turns over is indicative of the sufficiency of the quantity of items stocked. The GAO found that \$112 million of the Army \$157 million inventory investment is for items that turn over fewer than three times a year. The GAO also determined that 31 percent of the inventory investment is for items that turn over fewer than one time a year.

The GAO found that over \$100 million of the \$157 million of the inventory investment was for items that had 13 or more demands during the year--however, even those items did not experience high turn over rates. The GAO also found that over \$57 million of the \$100 million is invested in items that turned over fewer than three times a year and about \$8 million of the items turned over fewer than one time.

The GAO concluded that the quantities of demand-based items authorized to be stocked are excessive when compared to usage. The GAO further concluded that the fact that a large portion of the inventory investment is for items that turn over infrequently illustrates that the quantities of items stocked are too large. While not determining what the new criteria should be for determining which items, in what quantities, should be retained as demand-based items, in summary the GAO concluded the question the Army needs to answer is whether it wants to tie up its limited resources in inventory items that do not materially contribute to supply responsiveness and readiness. (pp. 5-6, pp. 20-24/GAO Draft Report)

DOD RESPONSE: Concur.

• **FINDING E: Few Demand-Based Items Are Requisitioned on a High-Priority Basis.** The GAO observed Army officials were concerned that reducing the authorized inventory levels for items not meeting the Army criteria for retention as demand-based inventory or reducing the authorized quantities could adversely affect equipment readiness. The GAO analysis showed their

Now on pp. 4-5 and 16-18.

concerns may not, however, be warranted. The GAO found that less than 6 percent of the items at the six divisions [in the GAO review] were requisitioned on a high priority basis (i.e., issue priority group 01 to 03)--indicating equipment was inoperable or the unit was unable to perform its mission due to a lack of parts.

The GAO reported the Department recognizes that items requisitioned with a high priority designation often are not critical to maintaining equipment readiness. (The GAO referenced a Department of Defense Inspector General report on the matter of high priority requisitions, which pointed out that about 50 percent of the high priority requisitions should not have been classified as such.) The GAO acknowledged there may be instances where an item is critical to unit readiness and time is of the essence. The GAO concluded, however, that in such cases the Army wholesale level depot could expedite shipment of the required part to the requester. The GAO pointed out that, in fact, the Army already has a system that allows the requester to identify urgently needed parts so the depot can respond appropriately by expediting processing and delivery of the items to the requester. The Army has a system that allows the requester to identify urgently needed parts so that delivery of the needed item can be expedited to the requester. In summary, the GAO concluded that the Army could reduce its inventory investment by reducing the number of items and item quantities without affecting supply responsiveness and readiness, as evidenced by the fact that few of the items were demanded to solve readiness-related problems. (p. 6, pp. 24-26/GAO Draft Report)

DOD RESPONSE: Partially concur. The Department disagrees with the GAO's conclusion that reducing the number of items and item quantities would not affect supply responsiveness or readiness, for three reasons.

- First, the GAO only categorized requisitions with priorities 1-3 as readiness related. DoD Directive 4410.6, "Uniform Materiel Movement and Issue Priority System," also indicates that requisitions with priorities 4-10 are for "... immediate end-use without which the capability of the Force/Activity to perform assigned operational missions is impaired." Had the GAO included requisitions with priorities 4-10 in its analysis, the percentage of items stocked with demands certainly would have been much greater.

Now on pp. 5 and 18-19.

- Second, the Department disagrees with the analytic approach that GAO employed to reach this conclusion. The Department must determine stocks in advance of actual requirements, based on probability rather than certainty. To achieve acceptable operational readiness rates, some items with a lower probability of demand must be stocked. While probability theory and experience indicate that some of these items will be required, it also suggests that there is no way to determine in advance precisely which items they will be. The GAO analysis of demand data simply confirms probability theory, not that the range and depth of items stocked is incorrect.
- Third, the mention of a 1988 audit by the Inspector General, DoD, on requisition priority abuse to suggest that the percentage of high priority requisitions found during the GAO audit may be overstated, is off target. The 1988 audit dealt with wholesale system requisitions, not retail requisitions, as the GAO is applying it.

- **FINDING F: Advantages of a Single Supply System.** The GAO referenced a previous report (January 1990/OSD Case 8159), which focused on the advantages to be gained by implementing a single supply system that provides increased supply discipline through increased item visibility and control over retail level inventory by the wholesale level item managers. In the 1990 report, the GAO recommended, and the Army agreed to develop and implement, a single supply system that provides its managers with system-wide asset visibility and the authority to redistribute excesses from locations where they are not needed to locations where a need exists. During its current review, GAO found that the Army is in the process of implementing such a system and has stated the single supply system will (1) provide superior responsiveness to the supply system customer at reduced costs, and (2) enable the single supply system item manager to direct the redistribution of assets among retail activities. The GAO applauded the ongoing and planned efforts by the Army to implement a single supply system and, thus, reduce inventory investment at the retail level. (pp. 28-29/GAO Draft Report)

DOD RESPONSE: Concur.

- **FINDING G: Sparing to Availability--A Concept Intended To Reduce Division Stock Levels and Increase Readiness.** The GAO reported that the Army is currently testing an inventory management concept--sparing to availability--which focuses on optimizing the quantity of spare parts to meet specified weapon system performance targets. The GAO explained that, under the concept,

Now on p. 21.

the unit commander would have the flexibility for specifying the desired weapon system performance targets--which, in turn, would drive the authorized inventory levels. The GAO concluded that, while the overall objectives of the sparing to availability concept are commendable, the manner in which the intended objectives are to be achieved could be in conflict with the objectives of the single supply system. The GAO pointed out that, while the single supply system is intended to reduce the number of authorized inventory items, sparing to availability would increase the number of items. The GAO further pointed out that the flexibility the unit commander has to shape the composition of the authorized inventory was one of the reasons for going to a single supply system--the Army considered it to be necessary to gain visibility and control over the retail level inventories and to give added control to the wholesale level rather than the retail level. The GAO concluded, therefore, that the sparing to availability would increase the flexibility of the unit commander at the retail level for determining the composition of the authorized inventory. The GAO reported that Army officials have expressed concern about the number of additional items--as many as 5,500 at one location--the sparing to availability concept would require, as well as the additional people that would be needed to manage the larger number of items.

The GAO found that because of the difficulties in trying to show a direct correlation between sparing to availability and improved supply management indicators (such as increased readiness and reduced inventory investment), officials resorted to computer simulation in order to determine what the results would have been if a sparing to availability authorized inventory was used. The GAO was advised that, at one test location (the National Training Center), the simulation of the concept allowed the unit to reduce inventory investment by \$75 million and increase readiness and the requisition fill rate. After analyzing the data, however, the GAO concluded that the reduction in inventory investment was not the result of sparing to availability--but, instead, actually was accomplished by eliminating those items that did not meet the requirements for stocking as demand-based items (i.e., items with no demands). The GAO concluded that testing of the sparing to

availability concept has not conclusively demonstrated it will achieve its intended objective of reducing inventory investment and increasing readiness. (pp. 7-8, pp. 29-32/GAO Draft Report)

DOD RESPONSE: Concur.

Now on pp. 5-6 and 22-23.

* * * * *

RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of the Army FY 1992 annual report on internal controls identify (1) demand-based items that do not meet retention criteria as a material internal control weakness and (2) an action plan to correct the weakness. (p. 8, pp. 26-27/GAO Draft Report)

DOD RESPONSE: Concur. The recommendation is, however, based on data taken from a period not representative of current operations. The data was collected shortly after Operation Desert Storm and before April 1992, when implementation of the Stock Funding of Depot Level Reparables initiative began providing a financial incentive to return excess reparables to the wholesale system. Changes since that period may have already eliminated much of the deficiency. Nevertheless, the Department agrees that items not meeting demand-based stockage criteria must be reviewed, changed to nondemand-based if they meet the authorized criteria, or deleted from the Authorized Stockage List. Therefore, the Army will take the following actions:

- Issue a worldwide message to reemphasize the Class 9 policy in Army Regulation 710-2 which requires the Authorized Stockage List review boards to review each ASL demand-based item for retention or deletion quarterly.
- Review the management procedures and the automated processes for eliminating demand-based items that do not meet the authorized retention criteria.
- Establish procedures for the conduct of Class 9 Authorized Stockage List reviews in Army Regulation 710-2 Update 14.

The Army will accomplish the described actions not later than March 1993.

- **RECOMMENDATION 2:** The GAO recommended that the Secretary of the Army direct the Deputy Chief of Staff for Logistics to change the criteria for determining which items and what item quantities should be retained on the division Authorized Stockage Lists to ensure that the Army investment in inventory optimizes item demands, issues, and supply responsiveness. (p. 8, p. 27/GAO Draft Report)

Now on pp. 6 and 19.

Now on pp. 6 and 19.

DOD RESPONSE: Partially concur. The Army will reevaluate demand-based retention criteria Authorized Stockage Listing based on the GAO analysis and Major Command feedback, and make changes necessary to ensure stockage optimization. The Major Commands already have the authority to apply more stringent control of stockage, and Forces Command and the U.S. Army European Command are currently assessing whether to implement such controls. The Army will initiate a study in Fiscal Year 1993 to review the criteria for determining Class 9 repair parts for the Authorized Stockage Listing.

• **RECOMMENDATION 3:** The GAO recommended that the Secretary of the Army not approve "sparing to availability" for implementation at the retain level until it can be clearly demonstrated (a) that the concept can achieve its intended objectives and (b) that it will not conflict with the objectives of a single supply system. (p. 8, p. 32/GAO Draft Report)

DOD RESPONSE: Concur. The Army will not make a decision on implementation of sparing to availability until demonstrations are completed and a thorough analysis of results is conducted. Demonstrations will last approximately one year, and a final report will be issued around August 1993. Sparing to availability will not be approved for implementation if it is determined it conflicts with the objectives of a single supply system.

Now on pp. 6 and 24.

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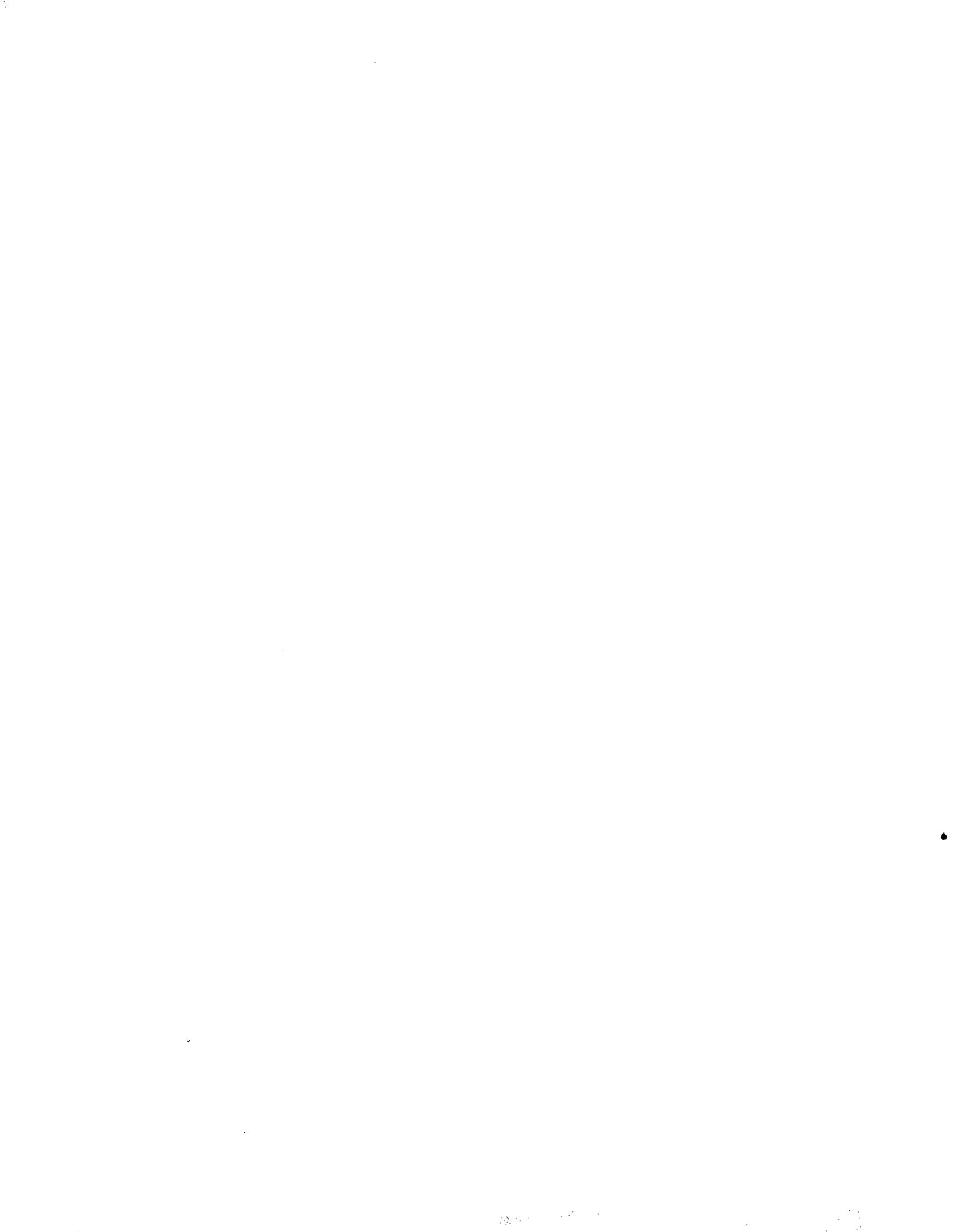
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